

Insurance Commissioner Stewart Issues Bulletin Prohibiting Price Optimization

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Says Practice Punishes Loyal Customers

DOVER, DE – Insurance Commissioner Karen Weldin Stewart announced today that she is forbidding property and casualty insurers from using so-called “price optimization” when setting rates for personal lines of insurance such as automobile and homeowners’ policies.

Commissioner Stewart said, “The use of price optimization results in insurance companies charging different premiums for two consumers who have the same risk profile. This amounts to unfair discrimination, which is expressly prohibited by Delaware law. Price optimization penalizes customers who are loyal to their insurance company, and I won’t allow it in our state.”

Price optimization occurs when an insurer uses information obtained through sophisticated data-mining technology to charge a particular customer a higher premium because the data indicates that the customer is unlikely to notice, shop around, or object. The practice has been called a “customer loyalty penalty” and has been outlawed in ten other states and the District of Columbia during the past year.

"Delawareans are required by law to buy auto insurance, and having homeowners' insurance is required by mortgage companies," said Commissioner Stewart. "These are not luxury items. It is not fair for insurance companies to set premiums based on whether or not the policyholder is statistically likely to shop around."

Title 18 of the Delaware Code prohibits charging unfairly discriminatory rates, requires that the rates be based upon risk, and requires differences among risks to have a demonstrable probable effect on losses or expenses. While risk classification is widely accepted as a legitimate insurance actuarial principle, and Delaware insurance laws permit insurers to classify certain risks, the fundamental factor underlying insurance rates is that they fairly reflect the risk of loss and the associated expenses of servicing and maintaining a policy.

Commissioner Stewart reminds consumers "always to shop around and compare rate quotes before purchasing auto or homeowners' insurance. If you have a question regarding your rates, call your insurance company. If you don't receive a satisfactory response, call our Consumers Division at 674-7310 or 1-800-282-8611."

The full text of Domestic/Foreign Insurers Bulletin No. 78 announcing the Commissioner's policy can be found at <http://www.delawareinsurance.gov/departments/documents/bulletins/domestic-foreign-insurers-bulletin-no78.pdf?updated> .

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